



STATE BUDGET 2008-09: SPECIAL SESSION

UNPRECEDENTED DECISIONS IN AN EXTRAORDINARY SITUATION

SUDDEN CHANGES IN OUR ECONOMY DEMAND A COMBINATION OF DIFFICULT CUTS AND NEW REVENUES

Economic conditions have deteriorated radically since the Governor signed the 2008 Budget Act on September 23. The volatility in our nation's financial markets has affected our budget – which is too reliant on Wall Street gains – to a point where the state faces the very real possibility of running out of the necessary cash to meet all its obligations. Critical state services could be jeopardized. California is facing a hole of \$11.2 billion in lower revenues than when the state budget was signed just six weeks ago. To remedy the urgent situation, the Governor is prescribing a combination of cuts and revenue increases – all of which must be taken as quickly as possible to prevent a cash crisis and an even larger budget problem next year.

BUDGET SOLUTIONS

Necessary Budget Adjustments: With \$11.2 billion less revenue that we anticipated just six weeks ago, it is necessary to immediately make cuts to our budget. **The Governor is proposing \$4.5 billion in cuts to the current-year budget.** All of the cuts are painful, but essential to ensure the state can protect vital services. The major budget adjustments are:

- **Proposition 98 Education Funding.** Because education funding is based on revenues, and revenues have fallen, funding to the Proposition 98 guarantee also drops. The Administration proposes total Proposition 98 expenditure reductions of \$2.5 billion, which keeps education funding at approximately \$122 million higher than the minimum guarantee.
- **Higher Education.** \$132 million in reductions are proposed for higher education segments, including \$65.5 million to the University of California system and \$66.3 million to the California State University System.
- **Supplemental Security Income/State Supplementary Payment.** Reduce SSI/SSP grants to the federal minimum effective March 1, 2009, which would result in General Fund savings of \$348.9 million in 2008-09
- **CalWORKs.** Modifying the Safety Net program, making certain benefits consistent with other CalWORKs benefits, instituting a face-to-face self-sufficiency review every six months for some CalWORKs families, and reducing CalWORKs grants by 10 percent effective March 1, 2009, would result in General Fund savings of \$273.9 million for the current fiscal year.
- **Employee Compensation Changes.** Requiring state employees take a one day furlough each month, eliminating two state holidays (combining Lincoln and Washington days into Presidents Day, and Columbus Day) and premium pay for hours worked on all remaining holidays, as well as eliminating the ability to count leave time as hours worked when computing overtime will result in General Fund savings of \$320 million in the current fiscal year. Additionally, the Governor proposes changes that would give state agencies the ability to establish a ten-hours-per-day, four-day workweek.
- **Department of Corrections and Rehabilitation (CDCR):** To realize saving in corrections, the administration proposes implementing parole reforms that protects public safety while cutting costs. This will be done mostly through parole reforms where high risk offenders who have committed serious, violent, or sexual crimes receive full supervision on parole while low-risk non-serious offenders receive no parole supervision after their release from prison. These reforms will save \$78.1 million in 2008-09 and \$677.6 million in 2009-10.
- **Public Safety Grants:** By proposing a funding realignment for public safety grants we are protecting funding for core public safety activities while realizing General Fund savings of \$250 million in 2008-09. Booking fees, the COPS and Juvenile Justice programs, and juvenile probation would receive stable, non-General Fund support going forward.
- **Medi-Cal.** Reducing California benefits to the level provided in most states, and ceasing to provide some optional benefits for adults will keep California providing more optional benefits than most states and will save the General Fund savings \$41 million in 2008-09 and \$129.9 million in 2009-10.

A Revenue Problem: While Governor Schwarzenegger has worked to fix the state's spending problem, and has kept state spending relatively flat for the past three budget cycles, the dramatic drop in our revenue projections over the past six weeks presents an extraordinary situation which, combined with the volatility of our tax system, creates a revenue problem. Raising taxes is never a good idea, but in this extraordinary situation, there is no question that new revenues must be brought into the state to protect education and vital services. **The Governor is proposing \$ 4.7billion in new revenues for the current budget year** in the form of:

- **A Temporary Sales Tax Increase:** A temporary increase in the state sales tax (from 5 percent to 6.5 percent) will generate additional sales tax revenues of \$ 3.5 billion in 2008-09 for the General Fund. It will also effectively protect significant education funding. At the end of three years, the state sales tax would revert to 5 percent.
- **Broadening the Sales and Use Tax to Include Certain Services:** Effective February 1, 2009, the sales and use tax rate will be applied to appliance and furniture repair, vehicle repair, golf, and veterinarian services. Effective March 1, 2009, the sales and use tax rate will be applied to amusement parks and sporting events. This is expected to generate additional General Fund sales tax revenue of \$357 million in 2008-09.
- **Oil Severance Tax:** Effective January 1, 2009, impose an oil severance tax upon any oil producer for the right to extract oil from the earth or water in this state. This brings California in line with other states. The tax shall be applied to the gross value of each barrel of oil at a rate of 9.9 percent and will generate additional tax revenues of \$528 million in 2008-09.
- **Increase Alcohol and Excise Taxes:** Alcohol excise taxes are proposed to be raised by five cents a drink beginning on January 1, 2009. This increase is estimated to raise \$293 million in 2008-09. Revenues from this tax will be used to fund critical drug and alcohol treatment and prevention services. Alcohol taxes were last raised in 1991.